

# **ASU CENTER FOR NEW TECHNOLOGY AND INNOVATION**

## **FREQUENTLY ASKED QUESTIONS**

### **LAND PURCHASE**

**1. What is the exact land that will be purchased?**

There are approximately 42 acres in the total proposed acquisition. These consist of the former mall site – about 37 acres located between Scottsdale Rd. and 74<sup>th</sup> St. and McDowell Rd. south to the alley just north of Bellevue St. (excluding the Bank One branch at the corner of McDowell and 74<sup>th</sup>). In addition, there are approximately 5 acres east of 74<sup>th</sup> St., south of Los Arcos Crossing shopping center and west of the Los Arcos United Methodist Church on 74<sup>th</sup> St. that are also part of the land holdings.

**2. Who currently holds title to the land, and is there a lien on it?**

The land is owned by "Los Arcos Development, LLC" commonly referred to as The Ellman Companies; there is a lien on the property by Price Legacy Corp., a San Diego based Real Estate Investment Trust (REIT).

**3. Why is the City purchasing the site from the ASU Foundation rather than directly from The Ellman Companies?**

The ASU Foundation was the entity that negotiated and signed a sales contract with Ellman and his lenders.

**4. How was the figure of \$41.5 million derived?**

This was based on a negotiation between the ASU Foundation and The Ellman Companies and its lenders.

**5. Didn't the City just do an appraisal that said the land was only worth \$23 million?**

There was an appraisal done about 18 months ago that concluded that the land was worth \$23.5 million based on a "highest and best use" of the property as a retail center.

**6. Is it possible to acquire the land at a lower value through other mechanisms, such as condemnation, or by "waiting out" Ellman?**

It might be possible, but one cannot predict if or when either might occur. Condemnation would likely entail a 2-4 year legal battle, and by then ASU will have found another location for this facility.

**7. What are the terms of Ellman's deal with Price Legacy? Does he have any extensions?**

Exact terms of their transaction are not public, and City staff has no direct knowledge regarding these terms.

**8. Didn't Price Legacy recently "write down" the value of this loan?**

Price Legacy recently made an accounting on their books, which wrote down the value of this loan to approximately \$23 million; however, it is our understanding that this was an accounting move only, and that Ellman is still responsible for the entire amount owed.

**9. How much money will Ellman receive out of the \$41.5 million?**

Again, components of the transaction between Price Legacy and Ellman are not public, and therefore we do not know specific details such as this.

**10. Why the hurry to do this deal?**

Ellman has indicated that he has other options for the land, and ASU has an immediate need for space.

## **THE PROJECT**

### **11. How much of the 42 acres would be devoted to ASU?**

The City will retain control of approximately 5 acres – 3 acres east of 74<sup>th</sup> St. (possibly to help facilitate the redevelopment of Los Arcos Crossings) and about 2 acres along Scottsdale Rd. (anticipated to be a future business hotel site). In addition, the City will likely retain control and responsibility for the internal roadways, public plazas, etc.

### **12. What will the project look like?**

It is anticipated that the ASU Scottsdale Center for New Technology and Innovation will be a Center with a strong pedestrian orientation. Total anticipated space would be between 1.0-1.2 million square feet. The buildings would likely be 3-5 stories (no taller than the old Broadway store that was on the site), with some street level retail and service facilities, and upper level office/research space. There would be significant landscaping and streetscaping, a plaza feature, and either above or below ground structured parking. The actual site plan has not been developed yet, but will be subject to all normal City approval processes, including zoning and Development Review Board.

### **13. Why does ASU need 30-40 acres to do this project – they are doing other projects at the Tempe campus of similar size but on much less land?**

The Tempe projects are being developed at a much higher intensity, with taller buildings and higher FARs. If we want to maintain a “Scottsdale-feel” to this project, with lower heights, more landscaping, public plazas, etc. they need this much acreage.

### **14. What will ASU put at this campus?**

It is anticipated that much of ASU's applied research, tech transfer, entrepreneurship, research commercialization, industry development, and contract research work will be housed at this facility. Specifics are still being developed, but preliminary indications suggest that programs such as AZ Tech, Technopolis, the Entrepreneurship Center, and the Arts, Media, and Engineering program would be housed at this location. Some of these programs would be direct ASU programs, some would be under the auspices of the ASU Foundation, some would be joint ventures with private industry, and some would be contract or grant based applied research. In addition, it is anticipated that there would be as much as 10% of the site devoted to retail/support businesses here (such as coffee shops, restaurants, copy centers, bookstores, etc.).

### **15. What is the timing of the project?**

The ASU Foundation would like to have the first building (between 150-250,000 square feet) complete in the next 18-24 months. After that, they would anticipate adding an additional 150-200,000 square feet every 18-24 months. Complete buildout would be in approximately 10 years. The lease does give ASUF added time to complete the project, to allow for variations in market cycles and demand. Under the lease, a minimum of 150,000 sq.ft. must be complete within 3 years, followed by an additional 150,000 sq.ft. every 3 years thereafter.

### **16. Will this change ASU's announced plans for 4 valleywide campuses?**

It is our understanding that ASU still will move forward with their plans for 4 campuses (ASU Main, ASU West, ASU Polytechnic @ Gateway, and ASU Capital Center in central Phoenix). This facility may see some programs currently housed on the Main campus, but since that campus is out of space, that will free up space for other programs there.

### **17. Will the City need to rezone the site?**

The City has discussed creating some type of “research park overlay” or special campus zoning category to provide greater flexibility for a mix of uses and campus environment.

**18. Are there similar projects like this already built? Is this like the ASU Research Park?**

ASU has indicated that there are various components found in other locations, but this would be the first project of its kind. The existing ASU Research Park was built as a real estate venture to house mostly private businesses, not ASU facilities.

**CITY OBLIGATIONS**

**19. Under this agreement, who would hold title to the land?**

The City would hold title, and would enter into a long-term ground lease with the ASU Foundation.

**20. What are the City's financial obligations?**

The City would need to acquire the land at a cost of \$41.5 million, and would need to provide the basic site infrastructure necessary to support the development of this campus. That would include demolition, construction of internal streets, utilities, landscaping, and parking structures. The current estimated cost of these is between \$40-45 million. Therefore the total City obligation would be up to \$86.5 million.

**21. How will the City pay for these obligations?**

It is anticipated that the City would use Municipal Property Corporation (MPC) bonds to acquire the land, and that the infrastructure would be either all pay-as-you-go, or a combination of pay-as-you-go and additional MPC bonds.

**22. What will be the total cost of the land acquisition including debt service, and how will that debt be serviced?**

Assuming a 30-year amortization schedule and a tax exempt financing interest rate of about 4.3%, we would anticipate that the total principal and interest cost of the purchase to amount to \$75-80 million over the 30 year period. MPC debt is backed by the City's excise tax (not property tax), rather than by a specific revenue stream.

**23. Will the City need to raise taxes to pay for this project?**

No. It is expected that the bonds would be paid off by the increased revenues the City would realize from both the site and from the spinoff impacts of this project.

**24. How will the infrastructure be paid for?**

It is expected that the initial infrastructure (\$10-15 mil.) would be paid on a pay-as-you-go basis out of the City's Economic Investment Fund, capital improvement fund, and/or contingency funds. The parking structures would need to be built sometime after year 4 at an estimated cost of \$30-35 million; the City could continue to utilize a pay-as-you-go basis if funds are available, or could possibly issue additional MPC debt if necessary.

**25. How will ongoing operation and maintenance be handled?**

ASU would be responsible for operation and maintenance costs associated with the buildings; the City would be responsible for operation and maintenance costs of the public infrastructure (i.e. streets and utilities) just as it does throughout the rest of the City.

**ASU OBLIGATIONS**

**26. How will the land be transferred to the ASU Foundation once the City owns it?**

The City will enter into a long-term ground lease with the Foundation. Specifics of the lease are available in the Term Sheet.

**27. Will the City allow this lease to be subordinated?**

No. The City will not allow the land to be pledged as part of the collateral by the ASU Foundation for their building construction loans; in the event of a default, the City's ownership of the land will not be at risk.

**28. What will the ASU Foundation's performance obligations be with regard to the property?**

The ASU Foundation will be required to construct and operate the buildings on this campus. There will be a phased timetable for construction of the facilities and for operating the Center in keeping with the nature of the project. Specifics of the performance obligations are included in the Term Sheet.

**29. Who will pay for construction of the buildings?**

The ASU Foundation is solely responsible for paying for the buildings; the City will have no financial obligation in this regard.

**30. What happens if the Foundation fails to meet the performance deadlines?**

If the Foundation has only built part of the campus and then fails to meet its obligations on the remainder, the ground lease will remain in effect on the completed portions of the site, but the remainder of the land will revert back to the City, who would then be able to do whatever it wanted on it.

**31. What happens if the City purchases the land, but the ASU Foundation fails to even begin construction of the first building?**

The City would take back the entire site, and could then do whatever it wanted with it.

**32. But wouldn't we get stuck with land that is worth more than what other developers might be willing to pay for it?**

It is possible. The City would likely decide to sell it through a public bidding process or an RFP process, and the City would control what ultimately happened on the site.

**33. Would ASU be able to sell off buildings in the future to private companies?**

If ASU were to do so, the lease stipulates that the proceeds of any sale (or refinance of the buildings) would have to be shared on a 50/50 basis with the City.

**34. Will ASU itself be a party to this lease, or just the Foundation?**

The ASU Foundation Scottsdale L.L.C. is the party to this lease.

**35. But isn't ASU paying for these buildings?**

No. The ASU Foundation is financing for the facilities.

**ECONOMIC/FISCAL IMPACT**

**36. What is the major benefit to the City of Scottsdale from this project?**

Based on the ultimate buildout of 1.2 million square feet of space, the project is expected to create up to 4,000 relatively high paying jobs. Those jobs are expected to have a major impact on the immediate area in terms of creating new demand for services, housing, etc., and should therefore be a major impetus for the revitalization of the immediate area.

**37. What are the expected direct fiscal benefits that the City will likely receive from the site itself?**

There are three sources of direct revenue from the site:

- A) **City Tax Revenues:** The site will generate City sales tax, property tax on the improvements (but not on the land), construction sales tax, hotel bed tax, hotel pad lease revenue, permits and fees, etc. A very conservative estimate of these revenues

over a 30-year period (without any inflation, growth factors, multipliers, etc.) is \$26-32 million; with inflation that range rises to \$35-42 million.

- B) **ASU Lease Revenue:** The City will receive a lease payment from the ASU Foundation relating to the private uses that will occur on this site – for example, if there is a privately owned bookstore or office that is part of this site, which is paying the ASU Foundation a market rate lease, the City will share in a portion of those lease revenues. Additionally, the City will share in parking revenues that arise from the site. As part of the lease, the City will share in 50% of the net revenues from this site (net revenues equal gross revenues minus operation/maintenance, debt service, and a capital reserve fund). It is anticipated that over the long term (30-40 years), the City would recoup enough lease revenue to fully recover its allocated share of the principal costs relating to both the land purchase and the infrastructure development (\$81.4 million).
- C) **Commercial Site Lease Revenues:** The City will retain 5 acres of land with the intention of making all or a portion available for commercial development on a market rate lease basis. One of the uses being discussed is a business-type hotel, although the City will wait to determine the market feasibility of any use at the appropriate time in the future. This lease of the commercial site is expected to generate an additional \$5-8 million in lease revenues to the City over the first 30 years.

**38. What other indirect fiscal benefits are likely from the development of this project?**

Staff analysis looked at the anticipated impact of this project on City revenues from the southern part of Scottsdale. This analysis suggests that the combination of anticipated redevelopment of nearby centers (Los Arcos Crossing and the K-Mart center), along with stabilization of revenues from the McDowell corridor auto dealers and the balance of the southern portion of the community, will result in a net increase in direct City revenues over a 30 year period of \$146 million.

**39. What other economic impacts could be anticipated?**

The impact of up to 4,000 new jobs and \$300 million in new capital investment in this portion of the City will likely induce significant new benefits to the entire community, in the form of new housing demand, new demand for retail and services, induced jobs that are created by this project, etc. While it is difficult to quantify, it is expected that this project will serve as a major catalyst for additional reinvestment in this area.